BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

13 November 2023

RESEARCH

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

Growth holding ground

LIC | TARGET: Rs 767 | +26% | BUY

Weak quarter; focus on recouping market share

LUPIN | TARGET: Rs 1,050 | -11% | SELL

Positive surprise from gSpiriva; valuations rich

TORRENT POWER | TARGET: Rs 800 | +3% | HOLD

Gas trading tapers

STAR CEMENT | TARGET: Rs 159 | +0% | HOLD

Cost relief in an otherwise weak quarter

ORIENT CEMENT | TARGET: Rs 128 | -40% | SELL

Volumes pick up; valuations still expensive

ASHOK LEYLAND | TARGET: Rs 210 | +21% | BUY

On a winning wicket

Daily macro indicators

Indicator	8-Nov	9-Nov	Chg (%)
US 10Y yield (%)	4.49	4.62	13bps
India 10Y yield (%)	7.27	7.28	0bps
USD/INR	83.28	83.29	0.0
Brent Crude (US$/bbl)	79.5	80.0	0.6
Dow	34,112	33,892	(0.6)
Hang Seng	17,568	17,511	(0.3)
Sensex	64,976	64,832	(0.2)
India FII (US$ mn)	**7-Nov**	**8-Nov**	**Chg ($ mn)**
FII-D	179.2	141.2	(38.0)
FII-E	(37.5)	(107.3)	(69.7)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: MONTHLY CHARTBOOK

On the domestic front, growth indicators are showing resilience in activity. With the onset of festive season, demand has picked up pace, as seen through increased digital payments and electronic imports. Within services, credit growth still remains robust and GST collections are maintaining pace. Airline passenger traffic has surpassed pre-pandemic levels and pick up in rail freight also suggests growth in domestic trade. On the global front, risks of Fed hiking rate one more time persists, as economy is holding ground. This will have an impact on India's 10Y yield as well. Further, expectation of OMO sale calendar and tight liquidity conditions have added to the pressure on yields across tenors. Volatility in the global markets suggests continued RBI intervention to keep INR range bound. Going forward, we expect INR in the range of 83.25-83.5$ in the near-term.

Click here for the full report.

BOBCAPS Research
research@bobcaps.in

LIC

- H1FY24 APE declined 10% YoY due to flat individual APE (up 20% ex-non-par) and a 25% drop in group business
- VNB margin stayed flat at 14.6%, leading us to trim estimates by 50bps each to 15.5%/16.5% for FY24/FY25
- We marginally revise EV estimates and move to a new TP of Rs 767 (vs. Rs 770); maintain BUY

Click here for the full report.

LUPIN

- Q2 EBITDA/PAT overtook consensus by 16%/25% backed by strong US business from gSpiriva launch and robust margins
- India sales grew modestly, in line with industry; international businesses (ex-growth markets) grew handsomely
- TP revised to Rs 1,050 (vs. Rs 800) as we raise FY24/FY25 EBITDA 6-15% and reset to 12.5x (vs. 11x) FY25E EV/EBITDA; retain SELL

Click here for the full report.

TORRENT POWER

- Q2 revenue and PBT flattish YoY as gas trading and power sales in the short-term market tapered
- Renewable capacity pipeline stands at 600MW, split equally between solar power due in FY24 and wind power due in FY25
- We cut FY24/FY25/FY26 EPS 6%/5%/4%; TP remains at Rs 800 based on unchanged 2.3x Sep'25E BV multiple – retain HOLD

Click here for the full report.

STAR CEMENT

- Monsoon impact in northeast markets kept Q2 volumes flat YoY at 0.9mt while realisation slipped 2%
- Operating cost fell 8% YoY to Rs 5,432/t despite higher maintenance cost, giving earnings a breather
- Maintain HOLD with unchanged TP of Rs 159, valuing the stock at 8x FY25E EV/EBITDA

Click here for the full report.

ORIENT CEMENT

- Q2 volumes recovered 15% YoY (-10% QoQ) to 1.4mt helped by below-normal rainfall and higher western region sales
- EBITDA margin expanded 670bps YoY to 12% on lower costs but was flat QoQ; cost-saving levers already embedded in our estimates
- Expansion drive weighs on earnings outlook; maintain SELL with TP of Rs 128 (unchanged)

Click here **for the full report.**

ASHOK LEYLAND

- Q2 net realisation per vehicle grew at healthy 6% to Rs 1,933k on price hikes of 1-2% in CVs
- Gross margin at 26.5% expanded 445bps YoY with EBITDA margin rising 470bps to 11.2%
- Maintain BUY with unchanged SOTP-based TP of Rs 210, valuing standalone operations at 20x FY25E EPS

Click here **for the full report.**

Growth holding ground

On the domestic front, growth indicators are showing resilience in activity. With the onset of festive season, demand has picked up pace, as seen through increased digital payments and electronic imports. Within services, credit growth still remains robust and GST collections are maintaining pace. Airline passenger traffic has surpassed pre-pandemic levels and pick up in rail freight also suggests growth in domestic trade. On the global front, risks of Fed hiking rate one more time persists, as economy is holding ground. This will have an impact on India's 10Y yield as well. Further, expectation of OMO sale calendar and tight liquidity conditions have added to the pressure on yields across tenors. Volatility in the global markets suggests continued RBI intervention to keep INR range bound. Going forward, we expect INR in the range of 83.25-83.5$ in the near-term.

Steady growth for domestic demand: Some of the high frequency indicators have been signalling resilience in domestic demand as has been reflected by pickup in digital payments, power demand and even in electronic imports. However, non-oil and non-gold imports have registered some moderation. On the other hand, auto sales have recorded improvement on a monthly basis and is expected to improve further on the back of festive demand. Steady pickup has also been noticed in the output of consumer goods. Services indicators such as railway freight, air passenger and robust GST collections are also exhibiting strong growth.

Health of centre's finances: Fiscal deficit ratio (% of GDP, 12MMA basis) of the central government settled at 6.3% as of H1FY24 compared with 6.5% last year (H1FY23), on account of better net revenue collections. In H1FY24 (Apr-Sep'23), centre's net revenue receipts rose by 19.5%, compared with 8.2% growth seen in H1FY23. This was driven by improvement in direct tax collections (25.4% versus 23.5%) and jump in non-tax receipts (50.2 versus -1.7%). On the other hand, indirect tax collections eased (6.6% versus 11.8%). On the spending front, momentum was maintained with overall growth at 16.2% versus 12.2% last year, led by revenue expenditure (10% versus 6%). Capex growth, despite some moderation in H1 this year, has managed to maintain momentum as it was up by 43.1% versus 49.5% last year. We expect spending momentum to pick up in H2 as government has utilized only 47% of its budgeted target.

India's 10Y yield exhibited some volatility: In line with global yields, India's 10Y yield witnessed some sell off pressure in Oct'23. This along with anticipation of publication of OMO sales calendar by RBI as well as underlying deficit liquidity conditions, have exerted pressue on India's yield. The entire curve across all spectrums has shifted upwards. In Nov'23, buying resumed on expectation of peaking of US Fed rate and also on account of risk- off sentiment surrounding geopolitical tensions. However, Fed Chair in his recent speech has highlighted to be watchful of the inflation trajectory as economic conditions have remained fairly buoyant. Going forward, we expect Fed's guidance will hold cue for evolution of domestic rates.

INR at a record low: INR has touched a fresh historic low in the last session as comments from Fed Chair have reignited fears of another rate hike in the US. Pressure on INR has remained, with the currency pair continuing to trade in a narrow range. Volatility has remained low indicating that RBI has been actively managing the exchange rate. We believe that the trend is likely to continue. We expect INR in the range of 83.25-83.5$ in the near-term.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

Economics Research Department
chief.economist@bankofbaroda.com

BUY
TP: Rs 767 | ▲ 26%

LIC | Insurance | 11 November 2023

Weak quarter; focus on recouping market share

- **H1FY24 APE declined 10% YoY due to flat individual APE (up 20% ex-non-par) and a 25% drop in group business**
- **VNB margin stayed flat at 14.6%, leading us to trim estimates by 50bps each to 15.5%/16.5% for FY24/FY25**
- **We marginally revise EV estimates and move to a new TP of Rs 767 (vs. Rs 770); maintain BUY**

Mohit Mangal
research@bobcaps.in

Weak growth: LIC's H1FY24 APE declined 10.3% YoY to Rs 226bn with the group segment falling 25%. Individual APE was flat YoY as par business dipped 2% whereas non-participating business grew 20% and increased its share to 10.8% of individual APE from 9% in H1FY23. Management reiterated its focus on group products despite a soft H1. NBP slipped 25% YoY though net premium declined by a lower 11% at end-H1. In a positive, ticket size has risen across policies YoY. Embedded value (EV) increased 22% YoY to Rs 6.6tn at end-H1. Baking in the results, we trim our FY24/FY25 APE estimates by 6% each.

Focus on profitable products: The company has introduced three non-par products during H1, indicating a sustained focus on the segment. On the non-par side, LIC continues to push annuity plans as ~25% of its non-par business comes from annuities, with a similar trend last year. Persistency ratios were largely stable with improvement across the 13th month cohort but a marginal decline in the 61st month cohort.

VNB margin flat: Net VNB margin was flat YoY at 14.6% as of H1 because the positive impact of a better product mix (2.3%) and favourable change in assumptions (1.9%) was offset by a negative impact (4.2%) from product benefits. We trim our FY24/FY25 margin estimates by 50bps each to 15.5%/16.5%.

Agency channel continues to dominate: LIC's moat is its strong agency network (1.35mn) which commands 49% market share and contributed 96% of the company's individual NBP at end-H1FY24. The bancassurance and alternate channels grew 4% YoY in H1 to Rs 8.6bn. Apart from these, the company has 153 corporate agents, 296 brokers, 19,000+micro insurance agents and 3,600+ branches.

Maintain BUY: The stock is currently trading at 0.6x FY25E EV, a ~75% discount to private listed peers which appears unwarranted. We value LIC at an unchanged 0.7x FY25E EV, a narrower ~70% discount to peers. Based on our revised estimates, our TP changes slightly to Rs 767 (vs. Rs 770), which offers 26% upside – maintain BUY given the company's entrenched brand equity, market leadership, superior agency force, focus on high-margin products and robust claim settlement ratio.

Key changes

Target	Rating
▼	◄►

Ticker/Price	LICI IN/Rs 610
Market cap	US$ 47.0bn
Free float	4%
3M ADV	US$ 8.1mn
52wk high/low	Rs 754/Rs 530
Promoter/FPI/DII	97%/0%/1%

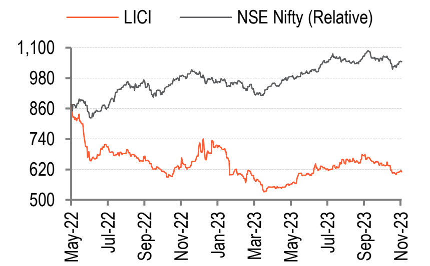
Source: NSE | Price as of 10 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
NBP (Rs mn)	23,20,506	21,31,454	24,23,536
APE (Rs mn)	5,83,860	5,68,473	6,26,107
VNB (Rs mn)	91,560	88,113	1,03,308
Embedded Value (Rs mn)	58,22,440	63,57,375	69,24,919
VNB margin (%)	16.2	15.5	16.5
EVPS (Rs)	920.5	1,005.2	1,094.9
EPS (Rs)	57.6	45.8	61.3
Consensus EPS (Rs)	57.6	48.4	55.3
P/EV (x)	0.7	0.6	0.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

SELL
TP: Rs 1,050 | ∀ 11%

LUPIN | Pharmaceuticals | 11 November 2023

Positive surprise from gSpiriva; valuations rich

- **Q2 EBITDA/PAT overtook consensus by 16%/25% backed by strong US business from gSpiriva launch and robust margins**
- **India sales grew modestly, in line with industry; international businesses (ex-growth markets) grew handsomely**
- **TP revised to Rs 1,050 (vs. Rs 800) as we raise FY24/FY25 EBITDA 6-15% and reset to 12.5x (vs. 11x) FY25E EV/EBITDA; retain SELL**

Saad Shaikh
research@bobcaps.in

Strong Q2; India business remains muted: LPC's Q2FY24 revenue/EBITDA/PAT beat consensus by 5%/16%/25%. The revenue beat stemmed from strong growth of 40% YoY (+17% QoQ) in North America business, which supported topline growth of 22% YoY (+5% QoQ) to Rs 50.4bn. India revenue grew at a modest 7% YoY (9% ex-essential medicines under price control), though management highlighted that the company fared better than the market in respiratory, cardiology, gastrointestinal and gynaecology therapies. LPC believes improving field force productivity will lead to a better H2 and expects growth to outpace the Indian market in the medium-to-long run.

Above-expected market share in gSpiriva propels US business: The US launch of gSpiriva (Tiotropium DPI) was the highlight of the quarter, making inhalation a substantial portion of sales to this market. gSpiriva helped LPC post US sales of US$ 213mn, an increase of 18% QoQ and 34% YoY. Price erosion also remained moderate in Q2. LPC expects stable pricing for gSpiriva and doesn't foresee any immediate threat from competition. The company has also built capacity to launch gSpiriva in other markets, such as Australia and Canada. Management guides for a US sales run-rate of US$ 200mn per quarter, to be led by gSpiriva and other complex launches.

Margin headwinds subsiding: Gross margin expanded 750bps YoY and 30bps QoQ to 66.2% on the back of a better product mix (gSpiriva), lower commodity inflation, reduced contribution from in-licensed products and softer freight costs. EBITDA margin also improved to 18.2% aided by operating leverage with the recovery in revenue.

Maintain SELL: Baking in the improved margin following the introduction of gSpiriva and lower tax guidance of ~22%, we raise our FY24/FY25 EBITDA estimates by 6%/15% now model for expansion in ROE to 13%/15%, with a 120% EPS CAGR over FY23-FY25. We also raise our target FY25E EV/EBITDA multiple to 12.5x (vs. 11x) – 1SD below the 5Y average – and arrive at a new TP of Rs 1,050 (vs. Rs 800). Valuations, however, appear full at 16.7x/14.0x FY24E/FY25E EV/EBITDA and hence we maintain SELL.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	LPC IN/Rs 1,180
Market cap	US$ 6.5bn
Free float	53%
3M ADV	US$ 15.4mn
52wk high/low	Rs 1,238/Rs 628
Promoter/FPI/DII	46%/14%/29%

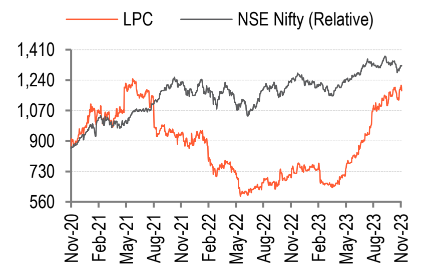
Source: NSE | Price as of 10 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	166,417	195,359	213,778
EBITDA (Rs mn)	17,982	33,177	39,374
Adj. net profit (Rs mn)	4,301	16,495	21,011
Adj. EPS (Rs)	9.5	36.5	46.4
Consensus EPS (Rs)	9.5	34.8	44.4
Adj. ROAE (%)	3.6	13.2	15.4
Adj. P/E (x)	124.2	32.4	25.4
EV/EBITDA (x)	30.0	16.7	14.0
Adj. EPS growth (%)	63.2	283.5	27.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 800 | ⮝ 3%

TORRENT POWER | Power | 10 November 2023

Gas trading tapers

- **Q2 revenue and PBT flattish YoY as gas trading and power sales in the short-term market tapered**
- **Renewable capacity pipeline stands at 600MW, split equally between solar power due in FY24 and wind power due in FY25**
- **We cut FY24/FY25/FY26 EPS 6%/5%/4%; TP remains at Rs 800 based on unchanged 2.3x Sep'25E BV multiple – retain HOLD**

Vinod Chari | Swati Jhunjhunwala
Arshia Khosla
research@bobcaps.in

Revenue and PBT flattish: TPW's Q2FY24 topline inched up 3.8% YoY to Rs 69.6bn with a proportionate 4.9% rise in EBITDA to Rs 12.2bn. Adj. PAT grew 12% YoY to Rs 5.4bn on account of lower taxes while PBT grew only 2% to Rs 7.4bn. The company received incentives of Rs 710mn during Q2. Barring Ahmedabad, TPW reduced transmission & distribution (T&D) losses in all licensed and franchised areas during H1FY24, with the Shil, Mumbra, Kalwa (SMK) region posting 460bps contraction YoY.

Profit marred by lower gas trading: The coal and renewable generation as well as licensed businesses saw improved profitability during the quarter. However, TPW's net profit took a hit of Rs 250mn YoY due to (i) lower gains from trading in LNG, visible in the 740bps YoY contraction in generation segment EBIT margin to 12.1%, and (ii) lower merchant sales, visible in the 3% PLF recorded at the DGEN plant. The renewable segment achieved strong 31% YoY topline growth to Rs 3.7bn, largely due to better wind PLF of 36.7% (+900bps YoY) and normalisation of the 115MW wind capacity added in Q1FY24.

Project status: The company has operational capacities of 920MW of wind and 263MW of solar power as of H1FY24 and expects to commission 300MW each of solar and wind power by FY24 and FY25 respectively, with no plans for thermal additions going forward. The goal is to combine renewable and gas capacities to provide round-the-clock power to customers. TPW is also exploring opportunities in new energy, including green hydrogen and electric vehicle charging. On the pumped hydro side, the company is waiting for regulatory approvals by the CERC and expects to commission any approved projects within 5-6 years.

Maintain HOLD: TPW is one of the strongest plays in the power distribution sector, with a healthy mix of commercial and industrial regions under licensed distribution and impressive T&D loss reduction in franchised areas. However, the ~40% runup in stock price over the past six months factors in the strong fundamentals, leading us to retain our HOLD rating. We lower our FY24/FY25/FY26 EPS estimates by 6%/ 5%/4% post H1FY24, but our TP remains at Rs 800 as we value the stock at an unchanged P/B multiple of 2.3x on Sep'25E BV, which is 1SD above the 5Y mean.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TPW IN/Rs 778
Market cap	US$ 4.5bn
Free float	35%
3M ADV	US$ 3.5mn
52wk high/low	Rs 800/Rs 431
Promoter/FPI/DII	54%/6%/40%

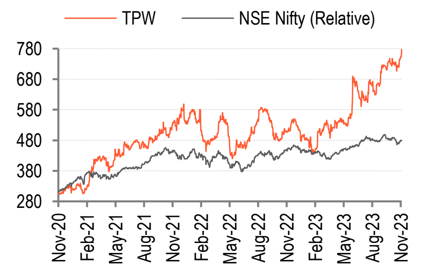
Source: NSE | Price as of 10 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	2,56,941	2,78,758	3,10,941
EBITDA (Rs mn)	47,587	51,074	57,368
Adj. net profit (Rs mn)	21,647	23,761	27,692
Adj. EPS (Rs)	45.0	49.4	57.6
Consensus EPS (Rs)	45.0	50.2	58.4
Adj. ROAE (%)	20.7	19.9	19.7
Adj. P/E (x)	17.3	15.7	13.5
EV/EBITDA (x)	9.6	9.2	8.2
Adj. EPS growth (%)	23.1	9.8	16.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 159 | ⮝ 0%

STAR CEMENT | Cement | 10 November 2023

Cost relief in an otherwise weak quarter

- **Monsoon impact in northeast markets kept Q2 volumes flat YoY at 0.9mt while realisation slipped 2%**
- **Operating cost fell 8% YoY to Rs 5,432/t despite higher maintenance cost, giving earnings a breather**
- **Maintain HOLD with unchanged TP of Rs 159, valuing the stock at 8x FY25E EV/EBITDA**

Milind Raginwar | Shree Kirloskar
research@bobcaps.in

Revenue growth muted on listless volumes, weak realisations: STRCEM's revenue fell 2% YoY (-23% QoQ) to Rs 5.9bn in Q2FY24 as volumes were flat YoY (-23% QoQ) at 0.9mn tonnes and realisation fell 2% YoY (flat QoQ) to Rs 6,532/t. Sales in the northeast market formed 75% of STRCEM's total in Q2 vs. 74% in Q1FY24, indicating volume pressure in this key region in a traditionally weak monsoon quarter.

Operating cost declines: Overall cost declined 8% YoY (flat QoQ) to Rs 5,432/t as energy cost excluding raw material inventory impact fell 11% YoY (-13% QoQ) to Rs 2,798/t. Further, logistics cost softened 16% YoY (-7% QoQ) to Rs 1,007/t as STRCEM operated its own fleet and a key transport route was restored. Other expenditure increased 3% YoY (+10% QoQ) to Rs 887mn due to kiln maintenance.

Lower cost aids margin expansion: EBITDA increased 42% YoY (-24% QoQ) to Rs 986mn accompanied by margin expansion of 510bps YoY (-15bps QoQ) to 16.8%. EBITDA/t expanded to Rs 1,100 from Rs 782 in Q2FY23 (flat QoQ) and adj. PAT grew 31% YoY (-56% QoQ) to Rs 407mn.

Capacity expansion plans: The grinding unit in Guwahati, Assam, is due to be commissioned by Q3FY24 and the 3mt Meghalaya clinker plant is scheduled for Q4FY24. The Silchar grinding unit in Assam has been deferred as STRCEM plans to sweat the Guwahati unit before commissioning another in the vicinity.

Maintain HOLD: Despite tepid revenue growth in Q2FY24, we maintain our estimates for STRCEM as we expect a government-led infrastructure focus in its core northeast market to trigger healthy realisations and volume growth. Further, the company's sound balance sheet despite being in capex mode and its plans to derisk revenue are likely to support ROE/ROCE expansion to an estimated 14%/19% by FY25. We maintain HOLD with an unchanged TP of Rs 159, valuing STRCEM at 8x FY25E EV/EBITDA, which implies a replacement cost of Rs 6.7bn/mt – 10% discount to the industry.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	STRCEM IN/Rs 159
Market cap	US$ 810.7mn
Free float	33%
3M ADV	US$ 1.5mn
52wk high/low	Rs 182/Rs 93
Promoter/FPI/DII	67%/1%/6%

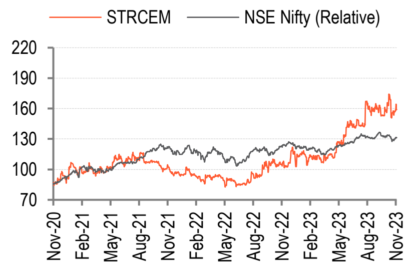
Source: NSE | Price as of 10 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	25,756	32,869	40,504
EBITDA (Rs mn)	4,684	5,355	7,492
Adj. net profit (Rs mn)	2,477	2,688	4,147
Adj. EPS (Rs)	5.9	6.4	9.9
Consensus EPS (Rs)	5.9	6.4	7.6
Adj. ROAE (%)	10.8	10.6	14.7
Adj. P/E (x)	26.9	24.8	16.1
EV/EBITDA (x)	13.6	12.6	8.4
Adj. EPS growth (%)	0.4	8.5	54.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

SELL
TP: Rs 128 | ⩔ 40%

ORIENT CEMENT | Cement | 10 November 2023

Volumes pick up; valuations still expensive

- **Q2 volumes recovered 15% YoY (-10% QoQ) to 1.4mt helped by below-normal rainfall and higher western region sales**
- **EBITDA margin expanded 670bps YoY to 12% on lower costs but was flat QoQ; cost-saving levers already embedded in our estimates**
- **Expansion drive weighs on earnings outlook; maintain SELL with TP of Rs 128 (unchanged)**

Milind Raginwar | Shree Kirloskar
research@bobcaps.in

Volumes aid YoY topline growth: ORCMNT's Q2FY24 revenue grew 17% YoY (-13% QoQ) to Rs 7.2bn as volume growth rebounded 15% YoY (-10% QoQ) to 1.4mn tonnes owing to less rainfall and higher western region sales. Realisation gains were tepid, however, at 2% YoY (-3% QoQ) due to the chase for volumes.

Cost savings from lower exergy expense: Operating cost dipped 6% YoY (-3% QoQ) to Rs 4,449/t due to lower energy expenses (raw material adjusted) which declined 9% YoY (-6% QoQ) to Rs 2,204/t. Logistics cost inched up 2% YoY (-2% QoQ) to Rs 1,346/t owing to an increase in lead distance to slightly above 300km. Other expenditure increased 10% YoY (-9% QoQ) to Rs 821mn and included Devapur kiln maintenance costs of Rs 100mn.

Margin comes off a low base YoY; stays flat QoQ: EBITDA jumped 166% YoY (-13% QoQ) to Rs 865mn and operating margin swelled 670bps YoY to 12% but stayed flat sequentially. EBITDA/t more than doubled YoY to Rs 607/t off a low base but fell 3% QoQ due to planned maintenance at the Devapur plant.

Capacity expansion likely to be delayed: ORCMNT's expansion plans have been, and may continue to be delayed, owing to a shift in plant location – from Bhandara in Maharashtra to southern Madhya Pradesh – and a lack of clearances. The company expects to cross 80% utilisation by FY25 which means growth could suffer if the new additions fail to come up in a timely manner even as peers forge ahead.

Retain SELL: We maintain estimates as management commentary on the expansion drive remains unchanged and the cost levers available with ORCMNT are already captured in our model. Valuations have run up over the past couple of months and the stock is trading at upwards of ~8x FY25E EV/EBITDA, which we find unjustified given the likelihood of mounting earnings pressure as the contribution from fresh capacity likely lags debt servicing. We maintain SELL with an unchanged TP of Rs 128, ascribing the stock a 5x EV/EBITDA multiple on FY25E. Our TP implies a replacement cost of Rs 61bn/mt – 40% below the industry average.

Key changes

Target	Rating
◄►	◄►

Ticker/Price	ORCMNT IN/Rs 213
Market cap	US$ 531.9mn
Free float	62%
3M ADV	US$ 3.9mn
52wk high/low	Rs 218/Rs 105
Promoter/FPI/DII	38%/6%/11%

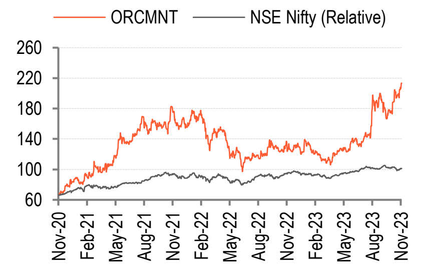
Source: NSE | Price as of 10 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	31,417	35,385	39,534
EBITDA (Rs mn)	3,646	4,577	5,512
Adj. net profit (Rs mn)	1,229	1,740	2,442
Adj. EPS (Rs)	6.0	8.5	11.9
Consensus EPS (Rs)	6.0	10.6	12.7
Adj. ROAE (%)	7.9	10.4	13.2
Adj. P/E (x)	35.6	25.1	17.9
EV/EBITDA (x)	12.9	10.4	8.6
Adj. EPS growth (%)	(53.3)	41.6	40.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 210 | ⮝ 21%

ASHOK LEYLAND | Automobiles | 11 November 2023

On a winning wicket

- **Q2 net realisation per vehicle grew at healthy 6% to Rs 1,933k on price hikes of 1-2% in CVs**
- **Gross margin at 26.5% expanded 445bps YoY with EBITDA margin rising 470bps to 11.2%**
- **Maintain BUY with unchanged SOTP-based TP of Rs 210, valuing standalone operations at 20x FY25E EPS**

Milind Raginwar | Shree Kirloskar
research@bobcaps.in

Healthy topline growth: AL's Q2FY24 revenue grew 17% YoY (+18% QoQ) to Rs 96.4bn in a part-festive-season quarter that saw volume growth of 10% to ~50k units and net realisation gains of 6% to Rs 1,933k per vehicle. A richer product mix coupled with price hikes of 1-2% taken by AL across CVs in March bolstered the quarter's realisations.

Better margins: Raw material cost improved to 73.5% of net sales from 78.0% in Q2FY23 (flat QoQ). Gross margin at 26.5% thus expanded 445bps YoY. A combination of better operating leverage, lower costs and healthy pricing saw EBITDA doubling to Rs 10.8bn from Rs 5.4bn in Q2FY23, with an 11.2% margin (+470bps YoY). Management expects AL's EBITDA margin to hold at this level over FY24-FY25. Adj. PAT increased to Rs 5.8bn from Rs 1.9mn in Q2FY23.

Higher inventory typical of festive season: Management indicated that channel inventory with dealers is high but that this is a typical festive season trend which depends on dealers' demand forecast assessment and is not indicative of weak buying. AL expects inventory to normalise after the festive season.

Four launches in Q2: During the quarter, AL launched two trucks (*Ecomet* 1915 and 1922 CNG), a bus (2820 G45 FES), and a tipper (N2825). Development of an electric bus designed for the European market is in progress. The company's order book pipeline for the defence business as on Q2FY24 is ~Rs 8bn.

Maintain BUY: AL continues to beat industry growth in the CV segment, maintain leadership in buses, deliver new launches and make progress on EVs. LCV segment recovery adds comfort. We maintain our estimates of 9-10% operating margins for FY24-FY25 as against management's aggressive double-digit target and keep our earnings projections unchanged. Our SOTP-based TP stays at Rs 210 as we continue to assign a 20x FY25E P/E multiple to the standalone business – in line with the 5Y average multiple. BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	AL IN/Rs 174
Market cap	US$ 6.2bn
Free float	49%
3M ADV	US$ 28.3mn
52wk high/low	Rs 192/Rs 133
Promoter/FPI/DII	52%/17%/15%

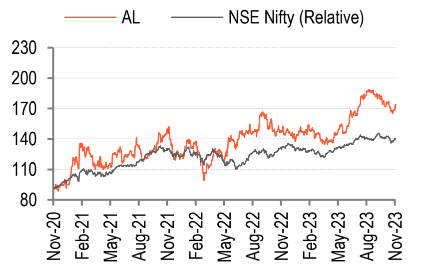
Source: NSE | Price as of 10 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	3,61,441	4,31,673	5,13,036
EBITDA (Rs mn)	29,307	40,155	49,472
Adj. net profit (Rs mn)	12,955	22,281	28,551
Adj. EPS (Rs)	4.7	7.6	9.7
Consensus EPS (Rs)	4.7	7.1	9.1
Adj. ROAE (%)	15.4	21.6	22.2
Adj. P/E (x)	37.0	22.9	17.9
EV/EBITDA (x)	18.3	13.1	9.7
Adj. EPS growth (%)	4079.0	72.0	28.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

Logo:

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "**Losses**") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd ("**MSL**") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as **"MAYBANK**"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.